

**APPALACHIAN REGIONAL COMMISSION
WASHINGTON, DC**

**REPORT ON APPLYING AGREED-UPON
PROCEDURES TO**

THE PENNSYLVANIA STATE UNIVERSITY

GRANT No. CO-11807-94

AND

PURCHASE ORDER No. 0358-0119

GRANT PERIOD: OCTOBER 1, 1994 THROUGH MARCH 31, 1997

PURCHASE ORDER PERIOD: JUNE 21, 1995 THROUGH DECEMBER 31, 1996

**OIG Report 98-32 (H)
March 20, 1998**

Caution: Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 USC 5222 9(b)(4). Distribution of this report should be limited to the Appalachian Regional Commission and other pertinent parties.

Mr. Hubert Sparks
Inspector General
Appalachian Regional Commission
Washington, DC

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures described below, which were agreed-to by the Appalachian Regional Commission's Office of Inspector General, with respect to the Appalachian Regional Commission's (ARC) Grant No. CO-11807-94 to The Pennsylvania State University for the period October 1, 1994 through March 31, 1997, and Purchase Order No. 0358-0119, for the period June 21, 1995 to December 31, 1996, solely to assist you in determining the allowability of costs incurred, whether grant objectives were met, and the current status of the projects. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Appalachian Regional Commission's Office of Inspector General. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The following procedures were performed to determine the grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC code:

- Held an entrance conference with the grantee.
- Reviewed the grant agreements and any modifications, and the purchase order and its modifications.
- Compared total grant costs by budget category as claimed to ARC to the books of account maintained by the grantee.
- Tested the allowability and supporting documentation of a sample of 20 grant expenses and five purchase order expenses.
- Reviewed the June 30, 1995 and June 30, 1996 Independent Auditor's Reports.
- Reviewed the OIG Survey Questionnaire completed by the grantee.
- Determined if specific grant objectives were achieved.
- Held an exit conference with the grantee.

The results of the procedures are discussed in the **RESULTS OF APPLYING AGREED-UPON PROCEDURES** section of this report.

Appalachian Regional Commission
Inspector General
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We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on payments received and costs incurred under this grant and purchase order. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Appalachian Regional Commission and the management of The Pennsylvania State University and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Upon acceptance, however, this report is a matter of public record.

M. D. Oppenheim, & Company, P.C.

Fairfax, Virginia
March 20, 1998

**REPORT ON APPLYING AGREED-UPON PROCEDURES TO
THE PENNSYLVANIA STATE UNIVERSITY
UNIVERSITY PARK, PENNSYLVANIA**

**GRANT No. CO-11807-94
AND
PURCHASE ORDER No. 0358-0119**

GRANT PERIOD: OCTOBER 1, 1994 THROUGH MARCH 31, 1997
PURCHASE ORDER PERIOD: JUNE 21, 1995 THROUGH DECEMBER 31, 1996

PURPOSE

The purpose of our application of agreed-upon procedures was to determine (1) the allowability of costs claimed under the Appalachian Regional Commission (ARC) Grant No. CO-11807-94 and Purchase Order No. 0358-0119 to The Pennsylvania State University, (2) if the grant objectives had been met, (3) the grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC code, and (4) the status of the project.

SCOPE

The primary purpose of the grant was to provide funds to conduct evaluations of ARC demonstration projects entitled "Enhancing Manufacturing Competitiveness in Appalachia". We tested a judgmental sample of 20 cost transactions incurred and claimed for reimbursement under ARC Grant No. CO-11807-94. Under the terms of this grant, the Commission shall reimburse the grantee for the actual, reasonable and eligible costs of the project, as determined and approved by ARC, provided total cost reimbursement payments shall not exceed \$180,000.

The period of performance for this grant, as amended, was October 1, 1994 to March 31, 1997. The Appalachian Regional Commission obligated \$180,000 on October 18, 1994. The grantee received nine payments totaling \$179,210. (See **EXHIBIT A.**) The remaining balance of \$790 was deobligated.

In addition to the grant, the grantee also received a purchase order. The purpose of the purchase order was to provide funds for travel to grantee sites and to provide for the use of graduate assistants. We tested a judgmental sample of five cost transactions incurred and claimed for reimbursement under Purchase Order No. 0358-0119. This Purchase Order was for \$10,260.

The period of performance for the purchase order was June 21, 1995 through December 31, 1996. The grantee received one payment for \$10,260.

We reviewed reports prepared by the grantee, evaluated project records, held discussions with the Manager of Financial Reporting, the Supervisor of Research Accounting, and the Principal and Co-Investigators during the period of March 17 - 20, 1998. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-21 and A-110, and the Appalachian Regional Commission Code.

BACKGROUND

The primary purpose of this grant was to conduct evaluations of ARC demonstration projects entitled "Enhancing Manufacturing Competitiveness in Appalachia". Under this grant agreement, the Grantee was to perform the following specific tasks in two phases:

Phase One

- ◆ Design a questionnaire to be completed by the grantees which will provide much more complete baseline information about their respective projects;
- ◆ Develop a generic intake form with which each project can collect information on the characteristics of firms that use its services;
- ◆ Develop a generic outcome-oriented customer questionnaire for all projects;
- ◆ Examine broad industry trends and consider these trends with respect to the grantees' perceptions of their targeted industry(s), and
- ◆ Provide technical assistance to the projects as requested.

Phase Two

- ◆ Conduct a briefing for ARC staff, at which information characteristics and data collection procedures will be reviewed;
- ◆ Present a plan to summarize the findings of the six project-specific evaluations and a series of options for implementing cross-site analyses that provide insights into significant program concerns, and
- ◆ Draft a detailed work plan for the second phase of the project for the project coordinator's review.

The purpose of the purchase order was to undertake a series of site visits to obtain information pertinent to undertaking case study examinations of the demonstration projects.

RESULTS OF APPLYING AGREED-UPON PROCEDURES

PROGRAMMATIC ACTIVITIES

With the help of the Appalachian Regional Commission's funding, The Pennsylvania State University accomplished the following, which appear to satisfy the specific tasks outlined in the grant agreement and purchase order:

- Performed site visits and made evaluations of six grantees.
- Prepared and performed a survey of firms in the Appalachian region and compared them with firms nationwide.
- Provided technical assistance to the six ARC grantees.
- Provided a briefing for ARC staff.
- Prepared the final report *How Firms Acquire Strategic Information: A Survey of Firms and a Comparison of Demonstration Projects*.

The grantee, however, did not submit two progress reports, as required by the grant agreement (See **OBSERVATION 1**). The grantee acknowledged this error and stated, in the future, they will attempt to complete all progress reports. We believe the grantee's response adequately resolves this issue.

FINANCIAL REPORTING

We evaluated the costs incurred by The Pennsylvania State University (Penn State) under ARC Grant No. CO-11807-94 for the period October 1, 1994 through March 31, 1997 and Purchase Order No. 0358-0119 for the period June 21, 1995 through December 31, 1996. The results of applying agreed-upon procedures are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section and in **EXHIBIT A** of this report.

Grant No. CO-11807-94 established an ARC obligation of \$180,000. The grantee requested and received \$179,210. The balance of \$790 was deobligated.

Purchase Order No. 0358-0119 established an ARC obligation of \$10,260. The grantee requested and received \$10,260.

Our procedures disclosed the following observations:

- **OBSERVATION 2** - ARC was excluded from the Schedule of Federal Awards in the June 30, 1996 Single Audit Report of The Pennsylvania State University. The grantee acknowledged this error and stated they are changing their procedures and also working to correct the June 30, 1997 audit report. We believe the grantee's response adequately resolves this issue.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – TWO PROGRESS REPORTS NOT COMPLETED

For the quarters ended September 30, 1996 and December 31, 1996, the grantee did not submit progress reports to ARC, as required by the grant agreement. The grantee indicated that they were in continual contact with the ARC project coordinator during this last stage of the project, and that they were no longer in “contract mode” but in “study mode” (meaning they were focused primarily on their research rather than complying with specific grant provisions).

RECOMMENDATION

Although it appears ARC was aware of the status of the project, the grantee should ensure that it completes progress reports in accordance with the grant agreement, or obtain a written waiver from this requirement from ARC.

GRANTEE’S RESPONSE

We agree. In the future we will make every attempt to complete all requested progress reports or request written exemption from the need to do so.

ACCOUNTANT’S CONCLUSION

We concur with the grantee’s response and have no additional comments.

OBSERVATION 2 – ARC EXCLUDED FROM SCHEDULE OF FEDERAL AWARDS IN JUNE 30, 1996 SINGLE AUDIT REPORT

The grantee did not include this ARC grant, on of the Schedule of Federal Awards in their Independent Auditor’s Report, for the year ended June 30, 1996, in compliance with OMB Circular A-133 - *Audits of Institutions of Higher Education and Other Nonprofit Organizations*. The ARC funding was included in the June 30, 1995 report. The grantee indicated that this was due to a coding error caused by some confusion over whether ARC is a federal entity or not.

RECOMMENDATION

Although this was only a small grant compared to The Pennsylvania State University’s total federal funding, the Schedule of Federal Awards should include ARC funding in all future reports, in accordance with OMB Circular A-133 requirements.

GRANTEE’S RESPONSE

We agree. The University was in error by excluding the funding received from ARC from our FY 95-96 A-133 report. We are in the process of finalizing the FY 96-97 A-133 report. We have identified all ARC awards as federal and included them in the Schedule of Federal Financial Assistance. Additionally, we have instructed our

Research Accounting Department to change their procedures to ensure that any future ARC awards are originally identified as federal assistance in our central accounting database. Such procedure change should ensure that ARC awards are correctly included in all future year's A-133 reports.

ACCOUNTANT'S CONCLUSION

We concur with the grantee's response and have no further comments.

**THE PENNSYLVANIA STATE UNIVERSITY
UNIVERSITY PARK, PA**

GRANT No. CO-11807-94

GRANT PERIOD: OCTOBER 1, 1994 THROUGH MARCH 31, 1997

SCHEDULE OF CASH PAYMENTS

(UNAUDITED)

DATE	PAYMENT		AMOUNT
2/8/95	Progress	\$	19,991
6/6/95	Progress		34,157
8/18/95	Progress		1,246
11/8/95	Progress		14,794
2/9/96	Progress		13,813
8/28/96	Progress		12,258
8/28/96	Progress		9,606
8/14/97	Progress		56,135
1/27/98	Final		17,210
Total Paid			179,210
Total Award			180,000
Balance			790
Less: Deobligation			(790)
Revised Balance		\$	-0-

**THE PENNSYLVANIA STATE UNIVERSITY
UNIVERSITY PARK, PA**

PURCHASE ORDER No. 0358-0119

PERIOD: JUNE 21, 1995 THROUGH DECEMBER 31, 1996

SCHEDULE OF CASH PAYMENTS

(UNAUDITED)

DATE	PAYMENT		AMOUNT
9/11/97	Final	\$	10,260
Total Paid			10,260
Total Award			10,260
Balance		\$	-0-

**THE PENNSYLVANIA STATE UNIVERSITY
UNIVERSITY PARK, PA**

GRANT No. CO-11807-94

GRANT PERIOD: OCTOBER 1, 1994 THROUGH MARCH 31, 1997

SCHEDULE OF CLAIMED EXPENSES

(UNAUDITED)

Total Project Costs	\$ 179, 210
Expenses Reimbursed by ARC	<u>179,210</u>
Percentage ARC of Total	<u>100%</u>

**THE PENNSYLVANIA STATE UNIVERSITY
UNIVERSITY PARK, PA**

PURCHASE ORDER No. 0358-0119

PERIOD JUNE 21, 1995 THROUGH DECEMBER 31, 1996

SCHEDULE OF CLAIMED EXPENSES

(UNAUDITED)

Total Project Costs	\$	10,260
Expenses Reimbursed by ARC		<u>10,260</u>
Percentage ARC of Total		<u>100%</u>



November 6, 1997

Mr. Hubert N. Sparks
Inspector General
1666 Connecticut Avenue, NW
Washington, DC 20235

Subject: ARC Contract 94-158, Grant CO-11807-94, Evaluation Plan for Industrial Competitiveness Initiative—Demonstration Projects

Dear Mr. Sparks:

This is in response to your October 21 letter to Mr. Irwin Feller in which you notified him of your intent to review the subject grant. I have attached the completed internal control questionnaire that you sent to Mr. Feller with your letter.

It is the policy of Penn State University to have all external audits/reviews coordinated through the Corporate Controller's Office, specifically through the Financial Reporting Department. When you are ready to commence your review in the spring, rather than contacting Mr. Feller, will you please notify me to arrange for an entrance interview.

If you have any questions or need additional information, please call me.

Sincerely,



Carla K. Rossi
Manager, Financial Reporting

Attachment

cc: Greta O'Toole
Frank Vongehr

APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL

SURVEY QUESTIONNAIRE

GENERAL INFORMATION ABOUT THE AUDITEE

1. Auditee Name: Penn State University
2. Address: 408 Old Main
University Park, PA 16802
3. Telephone No.: (814) 865-1355
4. Principal Executive (Name and Title): Kenneth S. Babe, Corporate Controller
5. Primary Contact Person for Audit: Carla K. Rossi, Manager Financial Reporting (814)
863-450
6. Date Accounting Year Ends: June 30
7. Independent CPA Firm: Deloitte & Touche LLP
8. Date of Last Independent Audit: June 30, 1997 (opinion dated 10/10/97)
9. Cognizant Government Audit Agency
Name: Office of Naval Research
Contact Person: Robert E. Austen
Telephone: (703) 696-4514
10. Latest Negotiated Indirect Cost Rate Agreement Covers
Final Rates Through: FY97-98
Provisional Rates Through: NONE
11. Location of Accounting Records: University Park Campus - Rider Building
12. Type of Organization: not for profit - Land-Grant University Commonwealth of PA
13. Number of Employees: more than 30,000 - full and part-time

GENERAL INFORMATION ABOUT OPERATIONS

	Yes	No	N/A	Comment
1. Are all funds maintained in a single or multiple general ledger system?				<u>single G/L - multiple funds</u>
2. Is the accounting system maintained on a cash or accrual basis?				<u>accrual - via y/e adjustments</u>
3. Can the accounting system provide the ability to compare expenditures with budgeted amounts for each cost category?	<u>X</u>	—	—	
4. Can the accounting system provide the ability to compare expenditures with budgeted amounts for each direct cost objective?	<u>X</u>	—	—	
5. Are there written procedures for				
--accounting?	<u>X</u>	—	—	
--travel?	<u>X</u>	—	—	
--purchasing?	<u>X</u>	—	—	
6. How often is the general ledger posted?				Most input is updated electronically on a daily basis. Some manual input is updated weekly.
7. How often do you reconcile bank accounts?				<u>Monthly</u>
8. Do you prepare a monthly financial statement/trial balance for each program?	<u>X</u>	—	—	
Can these reports be tied into the general ledger?	<u>X</u>	—	—	
9. Are general journal entries approved by a responsible employee?	<u>X</u>	—	—	
10. Are general journal entries adequately explained or supported by documentation?	<u>X</u>	—	—	
11. How many bank accounts do you have?				<u>more than 100</u>

		Yes	No	N/A	Comment
12.	Are authorized check signers limited to employees who do not have access to				
	--accounting records and entries?	<u>X</u>	—	—	
	--cash receipts?	<u>X</u>	—	—	
	--petty cash funds?	<u>X</u>	—	—	
13.	Is the signing or countersigning of checks in advance prohibited?	<u>X</u>	—	—	
14.	Is drawing checks payable to cash prohibited?	<u>X</u>	—	—	
15.	Are checks prenumbered?	<u>X</u>	—	—	
16.	Are blank checks properly controlled?	<u>X</u>	—	—	
17.	Are voided checks mutilated and properly accounted for?	<u>X</u>	—	—	
18.	Do cash reconciliation procedures include				
	--accounting for the sequence of checks?	<u>X</u>	—	—	
	--inspecting endorsements?	<u>X</u>	—	—	
19.	Where used, how are mechanical check signers safeguarded?			—	<u>in locked area</u>
20.	Does the accounting department				
	--check invoice extensions?	<u>X</u>	—	—	
	--compare invoices with purchase orders as to unit prices and quantities?	<u>X</u>	—	—	
	--match purchase orders and receiving reports?	<u>X</u>	—	—	
21.	Do you use formal purchase orders?	<u>X</u>	—	—	
22.	Are bank reconciliations prepared by an employee who does not handle cash receipts or prepare or sign checks?	<u>X</u>	—	—	
23.	Does supporting documentation accompany checks when submitted for signature?	<u>X</u>	—	—	

	Yes	No	N/A	Comment
24. Are vouchers reviewed and approved by an authorized representative prior to payment?	<u>X</u>	—	—	
25. Are paid vouchers and supporting documentation canceled to prevent resubmission?	<u>X</u>	—	—	
26. Are paid vouchers and supporting data filed by --vendor? --month?	<u>X</u> —	— <u>X</u>	— —	—microfilmed in chronological sequence
27. How often are cash receipts deposited?				<u>daily</u>
28. Is action involving hiring, dismissal, or change in pay rate approved by personnel department or other persons independent of payroll functions?	<u>X</u>	—	—	
29. How often are employees paid?				<u>monthly/biweekly - depending on employment type</u>
30. Are time and attendance records used in the preparation of the payroll for all employees?	<u>X</u>	—	—	for hourly
31. Are time and attendance forms required to be signed by --all employees? --a supervisor?	— —	<u>X</u> <u>X</u>	— —	—reviewed but no formal signature requirements
32. Name the person(s) who --maintains time and attendance records --prepares paychecks --distributes paychecks				<u>Individual supervisor/electronical</u> <u>Payroll Department</u> <u>Payroll Department - most directly deposited</u>
33. Are payrolls approved by an authorized person?	<u>X</u>	—	—	
34. Are employees paid by cash or check?				<u>Check - 92% via direct deposit</u>
35. How are unclaimed and undelivered checks safeguarded?				<u>Unclaimed checks are returned to the financial officer who is responsible for alerting payroll</u>

	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Comment</u>
36. Are unclaimed checks canceled --immediately? --within 30 days? --within 60 days? --within 90 days?	<u>X</u> _____ _____ _____	_____ _____ _____ _____	_____ _____ _____ _____	Payroll department handles cancellation in a timely manner.
37. Does the payroll system provide for earnings records that indicate total earnings, deductions, and net pay for each employee?	<u>X</u> _____	_____ _____	_____ _____	
38. If the payroll is paid from a payroll imprest fund, is this fund reconciled regularly?	<u>X</u> _____	_____ _____	_____ _____	
39. Do you have an established vacation and sick leave policy?	<u>X</u> _____	_____ _____	_____ _____	
40. Are all employees in key financial positions required to take mandatory vacations?	_____ _____	<u>X</u> _____	_____ _____	
41. Is compensatory leave granted?	_____ _____	<u>X</u> _____	_____ _____	
42. Is overtime compensated? Is it recorded on the time sheets?	<u>X</u> <u>X</u>	_____ _____	_____ _____	for non-exempt employees
43. Are all employees covered by a company-paid health insurance and/or hospitalization plan?	<u>X</u> _____	_____ _____	_____ _____	for most types of employees
44. Are employees covered by a retirement plan?	<u>X</u> _____	_____ _____	_____ _____	
45. Has the company made proper withholding and payment of applicable Federal, state, and local taxes?	<u>X</u> _____	_____ _____	_____ _____	
46. Do you follow Federal Travel Regulations or equivalent?	<u>X</u> _____	_____ _____	_____ _____	
47. Are travel authorizations approved in advance by an authorized representative?	<u>X</u> _____	_____ _____	_____ _____	

		<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Comment</u>
48.	Are leases on file for all rented property?	<u>X</u>	—	—	
49.	Do you own or lease company cars or other vehicles?	<u>X</u>	—	—	
50.	Do you rent/own/lease office space?				<u>all 3</u>
51.	Do the leases set forth the responsibilities of the lessor and lessee regarding maintenance, utilities, and other services to be provided?	<u>X</u>	—	—	
52.	Has rent been paid for any period of time on unoccupied space?	—	<u>X</u>	—	
53.	Are detailed equipment records				
	--maintained?	<u>X</u>	—	—	
	--controlled through general ledger accounts?	<u>X</u>	—	—	
	--balanced periodically with general ledger accounts?	<u>X</u>	—	—	
54.	Is the physical existence of equipment periodically verified by comparison with detailed records?	<u>X</u>	—	—	
55.	Is Government property correctly identified?	<u>X</u>	—	—	
56.	Have you disposed of any Government property in the past 2 years?	<u>X</u>	—	—	
57.	Is indirect cost allocated among programs/cost objectives?	<u>X</u>	—	—	
58.	Has a Federal agency approved the indirect cost allocation plan?	<u>X</u>	—	—	
59.	How often are indirect costs allocated?				<u>annually thru negotiation with cognizant federal agent</u>
60.	Are allowable and unallowable costs identified and segregated in the accounting records?	<u>X</u>	—	—	

	Yes	No	N/A
61. Do you have gasoline or other credit cards?	<u>X</u>	—	—
62. Do procedures provide for documenting in-house capabilities prior to subcontracting for services?	<u>X</u>	—	—
63. Are subcontracts written so the services to be rendered are clearly defined?	<u>X</u>	—	—
64. Do you currently have any subgrantees or subcontracts?	<u>X</u>	—	—
65. Do subcontracts include ARC requirements?	<u>X</u>	—	—
66. Are subcontractors examined periodically by certified or independent public accountants or by the audit staff of a public body?	<u>X</u>	—	—
67. Do contracts for services of consultants			
--clearly state the work to be performed?	<u>X</u>	—	—
--specify the reports required?	<u>X</u>	—	—
--specify rates of pay?	<u>X</u>	—	—
--provide for travel or other expenses?	<u>X</u>	—	—
--require a record or proof of work performance and accomplishments?	<u>X</u>	—	—
68. Do you have procedures for evaluating work performed by consultants?	<u>X</u>	—	—
69. Do you retain all accounting records for at least 3 years following the completion of a contract?	<u>X</u>	—	—
70. Are all employees in positions of financial responsibility required to be bonded?	—	<u>X</u>	—
71. Are OMB cost principles and requirements (i.e., A-87, A-122, A-102) utilized?	<u>X</u>	—	—

Comment

Many of our subcontractors are w/ other large Universities that would also be required to complete an O.M.B. Circular A-133 audit